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TAGS: [EFIN](#) [ECON](#) [EU](#) [SP](#)

SUBJECT: SPAIN RAISES ECONOMIC GROWTH FORECAST FOR 2005

1. (SBU) SUMMARY: Spain raised its growth projections for 2005 to between 3.2 and 3.4 percent. The Ministry of Economy attributes the revision to strong performance in the first quarter. However, methodological changes on the part of the National Statistics Institute account for the numerical revisions. The revised figures may further jeopardize Spain's attempt to maintain EU cohesion funds beyond the current end date of 2006. END SUMMARY.

2. (U) Spain's National Statistics Institute (INE) revised upward its growth projections for 2005 to between 3.2 percent and 3.4 percent from the previously released projection of 2.9 percent. The OECD now forecasts Spain's growth for 2005 to be 3.0 percent, up from 2.7 percent. Minister of Economy Pedro Solbes stated publicly that the revision comes in the wake of strong first quarter performance. GDP climbed an annual 3.3 percent in the first quarter of 2005, driven by good performance in the construction sector and acceleration in investment in capital goods.

3. (U) Notwithstanding Solbes' statement, methodological changes were the primary reason behind the revision in the growth forecast for 2005. The INE altered its methodology on May 19, revising all prior growth figures after changing the base year to 2000 from 1995. (Note: In the future, GDP figures will be presented as a chain-linked index that will refer to the previous year's data rather than a base reference year.) The new figures also draw on a 2001 census, which showed a sharp rise in the country's population as a result of immigration. In addition, INE announced a change in the way the contribution of bank loan deposits to GDP was calculated.

4. (SBU) COMMENT: Spain's revised projections could potentially harm Spain's bid for a continuation of EU cohesion funds past the current scheduled end date of 2006. Spain has received 11.6 billion euro in cohesion funds for the period 2000-2006, helping to fuel rapid growth. Spain's new projected growth contrasts sharply with the EU projection of 1.6 percent for the Euro zone. Spain's Secretary of State for the Economy David Vega has acknowledged that although the country is "richer and growing more," Spain may need to contribute more to the EU coffers as a result. Regardless, Spain will continue to seek support for a phase-out period for the cohesion funds during the upcoming budget debates. France, underpinned by Chirac, had previously supported Spain's position. The current uncertainty surrounding France's position due to the no vote on the EU Constitution may be another blow to Spain's hopes of keeping high levels of cohesion funds during a transition period. END COMMENT.

MANZANARES